

8 October 1976

NOTE FOR: The Director

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FROM : [REDACTED]  
A/E0/DCI/NI

SUBJECT : Your Speech to the Mid-Continent Oil & Gas Association,  
October 15, 1976

1. Attached is a suggested outline for the substantive portion of your remarks to the Oil & Gas Association. It seemed more appropriate to me to prepare this in outline form rather than finished text, but it can easily be converted if you wish.

2.. The text is largely drawn from OER material and has been cleared by OER and by the A/NIO for Economics. [REDACTED] will look it over early next week. A copy has also gone to Andrew Falkiewicz.

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3. Also attached are the two briefing papers we prepared but did not use for Governor Carter on Energy and Petrodollars. You might wish to review them before your talk.

4. I will be available to make whatever changes you might wish and can provide you with additional copies or a larger type as you desire.

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Attachments  
A/S

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cc: Mr. Falkiewicz  
[REDACTED] am (8 Oct 76)

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## ECONOMIC INTELLIGENCE

I. The world has changed greatly since World War II, and so have the interests of the Intelligence Community. In particular, economic intelligence has grown steadily in importance during the last decade. This growth is no fad. It derives from a change in the nature of the policy issues of concern to the President and his principal advisers.

- A. Until a few years ago, national security issues were overwhelmingly political in nature.
  - 1. The main role for economic intelligence was in assessing the economic potential of the USSR, China, and Eastern European nations for making war.
  - 2. This mission remains, and CIA continues to devote a large portion of its economic analytical resources to understanding the strengths and weaknesses of the Communist economies.
- B. Today, however, international economic problems -- many of which bear no relationship to the Soviet Union or the Communist countries -- are of great concern. We now must consider the tradeoffs between our foreign economic, political, and military objectives. In addition, international economic developments have a direct impact on our domestic economy.

II. Policymakers today have greatly increased their demand for economic intelligence support. They want to know what is going on, what it means, and what to expect in the future.

A. Since 1970, the stable international economic environment,

which had stimulated very rapid growth of international trade, has been badly shaken. Several crises occurred in quick succession, and to a greater or lesser extent they are still with us:

1. A dollar crisis;
2. A less dramatic, but probably more lasting trade crisis;
3. A grain crisis;
4. An energy crisis.

B: Beginning in 1971 the monetary rules changed, gold was dethroned, and international negotiations on exchange rates, exchange market intervention, and the like became of direct concern to our most senior policymakers.

C. overshadowing more traditional economic concerns is the question of access to resources.

1. The OPEC oil cartel -- I'll speak more of that later -- is in the forefront.
2. We may face similar challenges in other raw materials. Shortfalls in grain production in the USSR and elsewhere affect both the American farmer and the American consumer.

3. Trade negotiations, the price of gold, and the increasingly strident demands of Third World countries for a redistribution of income in their favor are but a few of the important economic issues concerning us all.

III. These newer problems have vastly broadened the number of countries about which economic intelligence must be concerned. The world is increasingly interdependent, and our economic security is linked to developments worldwide. Foreign economic policy can no longer be viewed as a subordinate aspect of foreign policy to be left largely to technicians.

A. Foreign economic matters can have a major impact on our ability to maintain troops in NATO, on our relations with Western Europe, on relations with the USSR and China, and on the whole spectrum of our relations with Japan. Thus, the Secretary of State must concern himself with economics.

B. Foreign economic questions now also involve such matters as the price of bread in American markets, the availability of gas and fuel oil, jobs for textile, shoe, and auto workers. Therefore the Secretary of the Treasury, the Secretary of Commerce, the Secretary of Labor, the Secretary of Agriculture -- all must concern themselves with international economics.

IV. To support these consumers -- and the Council of Economic Advisers, the Council on International Economic Policy, the Economic Policy Board -- the U.S. Intelligence Community has made major changes in dealing with foreign economic intelligence.

A. CIA's Office of Economic Research is the main national analytic research base. It is the largest element of the U.S. Government engaged in research on foreign economic matters.

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[redacted]

B. Economic specialists in many other areas of the Government are also at work in this area -- in Treasury, the Department of State, Agriculture, etc. We are trying hard to bring about the best possible coordination of these informed people -- sharing information and judgments. We believe strongly that competition in analysis is highly desirable -- and we have, of course, greatly increased our efforts to collect foreign economic intelligence abroad as well.

C. There are a number of vehicles by which we can send our analysis to the policymaker. We have daily current intelligence publications, a specialized Economic Intelligence Weekly, and a bi-weekly publication on International Oil Developments. Many unclassified

publications are released to the public via the Library of Congress or Government Printing Office.

V. Let me now give you some samples of the kinds of issues we are currently working on.

A. Economic growth and inflation: We closely monitor changes in economic activity and inflation worldwide, especially in the industrial countries.

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B. Petrodollars: The Intelligence Community has a major responsibility for tracking petrodollars -- their volume, location, the currencies and type of assets in which they are held.

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C. Grain: The emphasis on grain reflects the extreme tightness in the international grain market since U.S. surplus stocks were exhausted. Any substantial shortfall abroad is now quickly reflected in higher grain prices, with a direct economic and political impact on the U.S. In this situation, the priority of our long-established work on Soviet and Chinese agriculture has greatly increased.

- D. Trade and monetary negotiations: The Intelligence Community supports U.S. negotiators in these areas with estimates, projections, and advanced economic methodology. We maintain a large and growing data bank.
- E. Technology transfers: There is a great deal of concern in the Government about the impact on the Communist countries of the transfer of advanced U.S. technology. This is a very difficult area to analyze because many things besides technology influence these countries' economic performances and military programs.
- F. Soviet defense expenditures: We have just completed -- and released to the public -- two major studies of the burden of defense expenditures on the Soviet economy. We will continue to refine our analyses in this vital area.

VII. Let me now turn to the subject of greatest interest to this group -- international oil. Much of this information may be familiar to you -- and in fact I will welcome your comments as to how well our perceptions agree with your own.

- A. As you know, the Middle East has become the critical geographic area in the Free World's energy supply in the last 15-20 years. The Middle East oil producers,

together with Algeria, Libya, Nigeria, Venezuela, and Indonesia, have formed the OPEC cartel, giving them control over international oil prices.

1. OPEC will be considering another price boost this December.
  2. Over the longer term, it is certain that OPEC will increase oil prices at a rate that at least matches inflation in the major developed countries.
  3. Accounting for over 40 percent of current Free World oil output, the Arab countries have shown their willingness to use their oil as a weapon against the West and, given another Middle East war, would be likely to use it again.
  4. The effectiveness of the Arab oil weapon is not likely to decline in the foreseeable future because:
    - a. Free World energy consumption is rising, and oil's share of that rising consumption is still going up despite recent price increases and oil conservation efforts.
    - b. The Arab countries, [redacted] STAT hold the bulk of world oil reserves from which the required increase in production will come.
- B. Even though many people in government and industry around the world are concerned about the increased reliance

on OPEC and Arab oil, the cost of developing alternative sources is so high and the market for these alternatives is so uncertain that little has been done to move from research and development to the market place. Even the fears of an energy shortage as the oil age comes to an end have done little to stimulate the development of alternative energy sources.

- C. With demand for Middle East oil rising through 1980 and beyond, Western nations will be increasingly affected by cost pressures and transfers of income inherent in progressively higher oil prices.
  - 1. The large rise in crude oil prices in 1973/74 had a severe contractionary impact on Free World economies.
  - 2. Future price hikes by OPEC countries will have similar effects.
- D. Because oil demand will be so high, OPEC will have little difficulty in continuing to set the world price of oil.
  - 1. OPEC should have little trouble maintaining its cohesion in the period through 1980, when its oil exports will generally be increasing.
  - 2. Those few countries with the option of substantially raising oil production -- notably Saudi Arabia -- find OPEC a useful instrument of political influence

and do not want to risk the political isolation that lowering prices and boosting output would bring about.

3. Moreover, there is little economic incentive for these countries to run the political risks involved in such a policy. Even if all other OPEC countries produce as much as they would be likely to without the cartel, Saudi Arabia, Iraq, Kuwait, and the UAE can more than maintain their current level of production through 1980.
4. In the situation we are projecting, formal prorationing should be unnecessary. This is not to say, however, that these issues will not be continuing sources of friction amongst cartel members, simply that they will not be sticky enough to endanger the coalition.

MEMORANDUM FOR: Andrew Falkiewicz  
Assistant to the Director

Attached is the packet I sent to Mr. Bush  
for his Houston appearance on the 15th. I welcome  
any comments you might have.

AEO/DCI/NI

Date 8 Oct 76

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